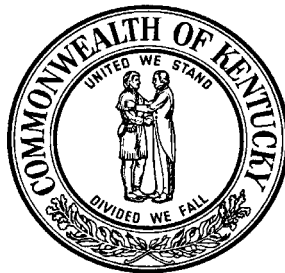


**REPORT OF THE AUDIT OF THE  
GALLATIN COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**May 8, 2003**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable George W. Zubaty, Gallatin County Judge/Executive  
Honorable Nelson Brown, Gallatin County Sheriff  
Members of the Gallatin County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Gallatin County Sheriff's Settlement - 2002 Taxes as of May 8, 2003.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Gallatin County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.  
Auditor of Public Accounts





**REPORT OF THE AUDIT OF THE  
GALLATIN COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**May 8, 2003**

**ROSS & COMPANY, PLLC  
Certified Public Accountants  
800 Envoy Circle  
Louisville, KY 40299  
Telephone (502) 499-9088  
Facsimile (502) 499-9132**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**GALLATIN COUNTY**  
**SHERIFF'S SETTLEMENT - 2002 TAXES**

**May 8, 2003**

Ross & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for Gallatin County Sheriff as of May 8, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$613,617 for the districts for 2002 taxes, retaining commissions of \$25,172 to operate the Sheriff's office. The Sheriff distributed taxes of \$588,221 to the districts for 2002 Taxes. Taxes of \$191 are due to the districts from the Sheriff and refunds of \$196 are due to the Sheriff from the taxing districts.

**Report Comment:**

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.





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Honorable Nelson Brown, Gallatin County Sheriff  
Members of the Gallatin County Fiscal Court

Independent Auditor's Report

We have audited the Gallatin County Sheriff's Settlement - 2002 Taxes as of May 8, 2003. This tax settlement is the responsibility of the Gallatin County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Gallatin County Sheriff's taxes charged, credited, and paid as of May 8, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 19, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable George W. Zubaty, Gallatin County Judge/Executive

Honorable Nelson Brown, Gallatin County Sheriff

Members of the Gallatin County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -  
September 19, 2003

GALLATIN COUNTY  
NELSON BROWN, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES

May 8, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Charges Transferred to Incoming Sheriff	\$ 71,916	\$ 90,280	\$ 327,405	\$ 142,735
Franchise Corporation	9,326	8,959	31,423	
Additional Billings	8	16	36	10
Penalties	2,795	3,696	12,995	3,472
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Gross Chargeable to Sheriff	\$ 84,045	\$ 102,951	\$ 371,859	\$ 146,217
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<u>Credits</u>				
Exonerations	\$ 181	\$ 247	\$ 848	\$ 226
Delinquents:				
Real Estate	9,375	12,494	43,880	11,707
Tangible Personal Property	746	703	2,339	972
Intangible Personal Property				3,076
Uncollected Franchise	924	839	2,898	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Credits	\$ 11,226	\$ 14,283	\$ 49,965	\$ 15,981
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Taxes Collected	\$ 72,819	\$ 88,668	\$ 321,894	\$ 130,236
Less: Commissions *	3,095	3,666	12,876	5,535
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Taxes Due	\$ 69,724	\$ 85,002	\$ 309,018	\$ 124,701
Taxes Paid	69,505	84,972	309,078	124,666
Refunds (Current and Prior Year)	28	33	133	35
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	\$ 191	\$ (3)	\$ (193)	\$ 0
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

\* Commissions:

4.25% on \$ 285,623  
4% on \$ 325,105  
1% on \$ 2,889

\*\* Special Taxing Districts:

Library District \$ (1)  
Verona Fire District (2)

Due Districts or (Refunds Due Sheriff) \$ (3)

The accompanying notes are an integral part of this financial statement.

GALLATIN COUNTY  
NOTES TO FINANCIAL STATEMENT

May 8, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of May 8, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

GALLATIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
May 8, 2003  
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 5, 2003 through March 29, 2003.

Note 4. Interest Income

The Gallatin County Sheriff earned \$132 as interest income on 2002 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Gallatin County Sheriff collected \$43,186 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Gallatin County Sheriff collected \$2,295 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff pays for the cost of advertising; therefore, the advertising costs and fees will be used to operate the Sheriff's office.

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COMMENT AND RECOMMENDATION



GALLATIN COUNTY  
NELSON BROWN, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

As of May 8, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly “ that part of his investment earnings for the month which is attributable to the investment of school taxes.” The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff’s fee account. During 2002 tax collections, the sheriff earned interest of \$132 on his tax account. However, Sheriff Nelson Brown did not pay the interest to the Board of Education or the fee account on a monthly basis. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account on a monthly basis.

*County Sheriff’s Response:*

*Because of service charges not refunded by the bank there was not enough money to write this check.*

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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To the People of Kentucky

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Honorable Nelson Brown, Gallatin County Sheriff  
Members of the Gallatin County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Gallatin County Sheriff's Settlement - 2002 Taxes as of May 8, 2003, and have issued our report thereon dated September 19, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Gallatin County Sheriff's Settlement - 2002 Taxes as of May 8, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Gallatin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company". The signature is written in dark ink and is positioned above the printed name of the firm.

Ross & Company, PLLC

Audit fieldwork completed -  
September 19, 2003



